

**TOP FY 2000
Project Narrative**

Montana District Export Council

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Project Purpose

Problem: Montana and neighboring states are languishing at the bottom of the American “economic food chain” and firms do not have the tools or resources to compete in the new global marketplace. As a result, businesses and communities are unable to share fully in national prosperity. In 1948, Montana ranked 10th nationally in per capita income. As recently as 1992, Montana held 37th place. This year Montana has dropped to 50th. Montana’s export performance is currently ranked 48th, surpassing only Wyoming and Hawaii. The statistics for Montana’s 7 Native American reservations, where unemployment can run as high as 60%, are even more dismal. Technology and the application of new e-business resources to Montana’s basic industries will provide businesses with opportunities to successfully compete in the global marketplace, and hold the greatest possibility for revitalizing the state’s and region’s economy.

This economic crisis is a direct result of the lack of investment in technology infrastructure and the accompanying support resources that are available in most urban areas. Density, demand, and distance-related issues have long been a hindrance to growth and development. The application of e-business strategies provides a unique opportunity for the region to regain its economic prosperity.

Tremendous strides can be made in the region’s core natural resources, commodity-based industries (beef, wheat, oil, timber, and minerals), by adding value through the use of technology in sales promotion, international business and marketing. By providing easy access to a menu of business support and development services that are technology driven, businesses are better positioned to overcome historical geographic impediments and overcome demand shortcomings by creating increased need for technology services and infrastructure.

Proposed Solution: The utilization of e-business tools can greatly enhance the abilities of businesses in Montana and neighboring states to compete in the global marketplace. To develop that potential and solve many of the problems highlighted above, the Montana District Export Council (DEC), in partnership with MWTC, NORWEST Bank, Rocky Mountain Global and many other private and public organizations, will create a Virtual E-Business Incubator, thereby offering much needed business services.

The Virtual Incubator will involve a multi-faceted approach to enhancing the competitiveness of rural SMEs and provide access to e-business and other training tools. Participants will learn skills such as how to access key databases on the web; locate foreign partners and sales leads on-line; market in the electronic global marketplace; and use technology to access banking, accounting, freight forwarding and other services essential to domestic and international trade.

Businesses will be able to access PERT from their own computers or at one of twelve NORWEST Bank locations. The Bank locations will be in rural towns selected for their ability to reach out to SMEs located in the most remote areas. One of the unique aspects of this project is that it gives businesses the opportunity to participate in an interactive on-line diagnostic assessment that will be evaluated by PERT consultants. The consultants will prescribe further development and capacity building activities customized to individual businesses' needs. Businesses will be able to participate in PERT's virtual incubator programs, work with consultants, and network with other PERT participants via e-mail, chat rooms/discussion groups, and video conferencing. The goal of PERT is to develop the e-commerce potential of SMEs, and increase the number of companies participating in global trade or the sales potential of companies already exporting, resulting in a direct impact on the region's economy. There will be a direct impact on the region because companies that export employ more people and pay their employees more than non-exporting businesses.

In year 1, PERT will identify 100 business in rural Montana that have the potential to export their products or services or increase current sales. Consultants will help these companies identify overseas trade leads and facilitate matches with foreign buyers. PERT's strategy will be to build an on-line community of businesses in the State who can share information and mentor one another. In years 2 and 3, six additional sites will be developed at remote NORWEST banks in surrounding states and 100 new businesses will be targeted to join the incubator each year.

Video conferencing and the Internet will allow firms to access and participate in virtual international trade fairs and missions and market their products and services through on-line shopping malls. Partnerships with the Small Business Administration and Montana Export Assistance Center (MEAC) will provide access to 180 domestic and international U.S. Department of Commerce trade centers. This will effectively link rural SMEs to millions of potential U.S. and international buyers and allow them to showcase their products in central locations that are attractive and convenient to global buyers.

A partner in the project, Rocky Mountain Global, will work with traditional commodity-based businesses to assist them in adding value to their products. For example, a Montana safflower producer who traditionally sold only the raw commodity in bulk is now bottling oil and successfully selling globally to the cosmetic industry. This type of value-adding is key to many of the SMEs survival in the global electronic marketplace. More in-depth consulting services will be provided to appropriate businesses at a nominal fee. Fees will be used to help sustain the Virtual E-Business Incubator and allow it to continue to offer training and consulting services for new companies.

Understanding and utilizing enhanced technology will increase the competitiveness of all of the region's businesses, not simply high-tech ventures, as well as improve communication and resulting relationships with global

customers and suppliers. An example of how PERT's virtual e-business incubator works and a flowchart are presented in Appendix B-2, B-3.

The PERT Virtual E-Business Incubator has the following goals:

1. To provide rural SMEs a means to learn about the tools that exist in the new digital economy and how they can be utilized to enhance their competitiveness
2. To increase the number of export-ready companies in Montana and the Rocky Mountain Region
3. To provide a model for other rural areas to help their SMEs become full participants in the global electronic marketplace
4. To stimulate demand for technology in the Rocky Mountain region's rural areas so that the private sector will respond
5. To increase the awareness of e-business tools among Native American businesses

PERT expects to be the critical catalyst in driving many of the region's SMEs to participate in electronic commerce. Through the Virtual E-Business Incubator, SMEs will be offered the opportunity to gain the skills necessary to be full participants in the global economy. This will, in turn, create the demand necessary for the private sector to provide cutting-edge technologies in rural areas and will help keep SMEs in these rural areas from falling into the digital divide.

1. Innovation

One of the factors making PERT innovative is the involvement of a bank as a primary partner. NORWEST Bank realizes that regional businesses are struggling to find their way into the emerging global electronic marketplace. In 6 of the state's most rural towns, the NORWEST Bank branch office will serve as a public access point for local businesses to be able to participate in PERT programs. In addition, the Bank personnel will serve as mentors to struggling SMEs. Once the program has proven successful in Montana, NORWEST will provide 6 more sites that will be located in Idaho, North and South Dakota and Wyoming.

PERT is innovative in that its focus is on existing SMEs that are located in rural and remote areas and its use of technology to allow those SMEs to participate in the Incubator electronically. A traditional business incubator organization fosters the creation and development of SMEs in environments where this has not happened spontaneously. This project takes that concept further by helping SMEs in one of our nation's most rural, technology-deprived areas to reshape, rethink, and retool their companies ensuring that they have the ability to compete in the global e-commerce arena.

As Montana and neighboring states are so large geographically and SMEs are not concentrated in one area, the traditional physical incubator model is not

effective. This project uses technology to enable SMEs that are located in the most rural, remote areas of the State, including Indian Reservations to gain access to a business incubator. Networking technology will allow the incubator to be brought to the companies, instead of the companies having to physically visit the incubator.

As noted above, this project is also unique in that unlike most economic development endeavors, the partners in the project are not solely seeking to attract businesses to the region; rather the focus is to grow existing businesses.

The project's partners are a diverse group of private, non-profit and public entities. The Incubator will stimulate demand for technology in rural areas, increase rural SMEs' participation in the increasingly e-commerce driven economy, and provide training, counseling, and support businesses that will enable e-business development.

2. Diffusion Potential

Replicability: This approach is an innovative, prototypical, replicable export and e-Business development model. It is designed for application in other low export, IT-deprived regions and particularly in areas that are reliant on commodity production. The Virtual E-Business Incubator will be completely replicable not only in rural areas of the U.S., but also in countries with struggling, commodity-dependent economies throughout the world. Experts predict that in the U.S. as many as 56% of businesses will be involved in e-commerce by the end of this year. Small businesses located in remote and disconnected areas are in the greatest danger of being left out of this Internet revolution. The Virtual E-Business Incubator model will provide a means for many of our nation's most rural and remote SMEs to gain the ability to compete successfully in the e-commerce driven marketplace.

Diffusion: The Virtual E-Business Incubator will be publicized extensively by the influential partners involved in its design. First, the MT DEC is a member of a network of DEC's located in every state in the U.S. The MT DEC will be the first DEC to receive funds for the purpose of creating a Virtual E-business Incubator and the project's success is of great interest to the other DEC's. MT DEC members will seek opportunities to present the project at regional and national meetings, through the MT DEC website and via speaking engagements to Chambers of Commerce, Rotary Clubs, and personal business contacts. In addition, the Montana World Trade Center is in a unique position to publicize the project worldwide. The MWTC is one of many World Trade Centers located around the world. It has the added distinction of being the only WTC affiliated with a University. Academic channels and University Alumni will complement the global WTC network, documentation on the Internet and newsletters, journals, and via speaking opportunities will allow for widespread diffusion. Rocky Mountain Global will promote the Incubator in its on-going work with companies to increase their exporting potential. Perhaps the most influential diffusion will be

word-of-mouth -- businesses that benefit from their Incubator experiences telling others of its value.

3.Project Feasibility

The Virtual E-business Incubator will use one HP web server, 12 desktop computers for the public access sites at NORWEST Banks and three workstations for project support, programming and development. Project personnel will use two laptop computers for meetings and presentations with industry leaders and partners as well as for travel. The applications deployed will include desktop video conferencing, streaming, push technology, chat sessions, list serves, an interactive website and extensive access to online databases. The Incubator will use an existing statewide broadband network to distribute its programs. In areas not reached by the network, desktop video conferencing will be deployed.

PERT will contract with a network administrator who will be responsible for hardware specifications, system design, and integration of hardware into local area network, security and network topology. A programmer will be responsible for developing Incubator programs to run as web-based applications. An Internet architect will design the navigation and architecture for the Incubator website and will ensure that all applications are user-friendly.

In addition to their extensive knowledge of e-commerce solutions and applications, the project's team leaders bring to the project a wide range of international trade expertise and tremendous access to the state's business community. The project leader will be Dr. Fraser McLeay of the MWTC. Dr. McLeay was the lead organizer of a sold-out, 3 day long immersion course held in Montana in August 1999. The course gave business executives throughout the region the opportunity to learn from the pioneers in e-commerce and established Dr. McLeay and the MWTC as leaders in bringing e-commerce solutions to Montana. The MT DEC will be responsible for most of the administrative aspects of the project, and its 20 members, who are leaders in the business community throughout the State, will help publicize the Incubator in their communities and identify and recruit participants. Staff and consultant biographies are presented in Appendix B-9 – B-10.

The Virtual E-Business Incubator will benefit from the relationships of the well-established MT DEC and MWTC. MWTC is the largest regional organization working with businesses in an on-going international and e-business advisory capacity and the MT DEC is part of a nationwide network of community leaders committed to sharing their expertise on international trade. The Montana Export Assistance Center, co-located with the MWTC, will provide access to US Commercial Service Offices in the US and abroad. The American Indian Business Leaders, also co-located with MWTC, will assist the Incubator in building relationships with the Native American business community. The

Montana Business Capital organization will help provide funding for appropriate new ventures.

Budget, Implementation Schedule and Timeline: Complete budget information and timeline for PERT can be found in *Appendix 424A*. The budget represents cash and in-kind contributions from the project partners combined with funds to be awarded through the grant. Additional resources will be secured as the project develops in the form of consulting fees from companies desiring more extensive assistance. A Budget Timeline is presented in Appendix B-1.

Sustainability: Assisting small and medium-sized businesses gain the tools necessary to compete in the 21st Century is an on-going concern for Montana and its surrounding states. The project's partners have made a commitment to continue the Incubator beyond the grant timeline. The Incubator will be supported by consulting fees from companies that need extensive, on-going support. Project leaders expect the Incubator to be self-sustaining by the end of 2003.

4.Community Involvement

Partnerships: The MT DEC is governed by a board of directors made up of business and community leaders throughout the State. As PERT expands regionally, other DEC's will join as partners. The MWTC is governed by a statewide board of prominent citizens and works with more than 300 companies annually. NORWEST Bank, Rocky Mountain Global (RMG), MBC, and AIBL, will provide access to technology, mentoring, consulting services, venture capital and the opportunity to interact with Native American business community. Letters of support from these organizations are included in Appendix A-1. To be successful, PERT will work with and receive feedback from professional business associations throughout the region, including Chambers of Commerce, State Departments of Agriculture and Commerce, CPA Associations, Bar Associations, Economic Development Groups, and the SBA. All have expressed an eagerness to alert their members and constituents to PERT resource availability. NORWEST Bank and its merger with Wells Fargo Bank will offer unprecedented ability to notify and educate thousands of citizens in the region about this project. Advertisements about PERT activities will go out in bank statements, and the routine mailings of partner organizations. Finally, the PERT website will be hyper-linked to participating companies and high traffic sites in the region, and will allow citizens to offer feedback to help improve accessibility and user acceptance.

Support for End Users: Incubator businesses will have access to develop competencies in e-business applications, including website development, leveraging technology to communicate with customers and suppliers, data collection and transmission, and other e-business tools as necessary. PERT is staffed by professionals skilled at providing highly customized services, regularly using client feedback to modify and improve their services. In addition, users are supported by trained NORWEST Bank employees, who will mentor companies accessing Incubator programs from 12 locations.

Privacy: The project implementation team will take steps to ensure client privacy. The network infrastructure design takes into account privacy with the incorporation of a network firewall and e-mail password protection measures. Diagnostic assessments and other on-line submissions will be stored on a secure server and access given to PERT staff. Vital business information will not be shared with outside organizations.

5.Reducing Disparities

Targeted SMEs face significant barriers to using e-commerce and going global. First, they are located in states that advance deemed members of the “disconnected dozen” due to their lack of telecommunications infrastructure, which in turn limits access to information technology due to availability and to high costs associated with sparse population bases. Second, distance and geographic barriers hinder transportation of goods to market. Third, the region has limited access to bankers, lawyers, marketers, and freight forwarders who have experience in the international arena.

In addition, the region for many years has shipped its commodities to other states and foreign nations for value adding refining and processing. As a result, only minimal economic gains have resulted from resource extraction, agriculture, labor and investment and the region has particularly suffered in recent years with the violent swings in commodity pricing. The states all rank near the bottom in terms of high-tech status, average wage and most other economic development-related categories.

This project will be significant in reducing disparities among rural SMEs as e-business applications and strategies have significant potential to effectively mitigate the barriers highlighted above. Through PERT, rural states such as Montana can build critical mass through partnerships and business alliances that will reduce costs and barriers by creating economies of scale for SMEs. As demand increases, larger corporations will look to the region as a viable market. Increased competition will allow the development of an improved and lower priced technology infrastructure for SMEs in the region.

For more information, please refer to Appendix B5-B7.

7. Evaluation and Documentation

Realistic, measurable outcomes: Outcome measures will link utilization of the Virtual E-Business Incubator to impacts on employment, wages, sales, competitiveness, and e-business development. The system's design includes regular contact with SMEs, which will provide ample opportunity to directly assess the use of the system and the extent to which PERT has played a role in increasing the number of export-ready companies and stimulated demand for technology in rural areas throughout Montana and the Rocky Mountain Region.

Evaluation, Documentation, and Dissemination - Evaluation Plan

The project evaluation will focus on the effectiveness of the Incubator system and its success in recruiting and assisting SMEs in rural areas. Documentation through data collection of utilization rates by firms will be followed by evaluation of outcomes in relation to the goals and objectives of the project. The evaluation will answer the following questions:

- How effective is the information provided and what are the utilization rates by firms?
- What are the e-business development, employment, wage, sales and export market impacts from the Incubator system?
- How effective is the penetration of the Incubator to rural areas and how transferable is the design of the system to other rural regions?

Evaluation strategy and data collection: The evaluation component is based on a threefold strategy of continuous quality management, external evaluation, and internal evaluation. Continuous quality management will be designed to constantly improve the user interface, resource, tools, type of data collected, and ability to identify and target new SMEs. The online data system will be designed to allow the user interface to be modified and improved easily and efficiently. Suggestions will be taken for improving the user interface and implemented if they are cost effective. External evaluation for assessing outcomes and customer satisfaction will be based on positive impacts on SMEs and user satisfaction (see Appendix B8 For specific measures). Internal evaluation for management control will use the administrative and budgetary control of the MT DEC in partnership with the MWTC and other partners.

Data analysis: Changes in e-business sales and operations, sales in export markets, direct employment, wages, and investment in e-business technology will be summarized for SMEs using the PERT site. An inter-industry model of the Montana economy will be used to estimate economy-wide impacts. Rates of utilization will be tracked directly by electronically monitoring each access to the website as well as logging special requests and requests for reports and publications. This will capture usage by SMEs broken down by industry category and location in Montana and the Rocky Mountain region. These measurements will be analytically compared to responses from the direct updating process.

Documentation Plan: This project will produce a complete body of documentation that will be readily available. The structure and interrelations of the various components that make up the incubator and, as new SMEs are added, we will provide the basis for a document that describes the final data structure and illustrates how SMEs differ from another.